



Ron G. Crane
Idaho State Treasurer

DBF Investment Statement of Understanding

Purpose

The Diversified Bond Fund “DBF” has been created by the Idaho State Treasurer’s Office “STO” as an alternative investment to the short term investment funds such as the Local Government Investment Pool “LGIP” and IDLE, for those State Agencies and Public Agencies “Municipalities” who are able to exchange current liquidity for the potential of greater returns over the long run.

Participant Accounts

The DBF is a voluntary investment vehicle for State Agencies and Municipalities. An agency can request to join the DBF by submitting a completed application. This application must be approved by the agency's governing board and signed by at least one authorized member of the agency's governing board before submission to the STO.

Participation in the DBF is open to all State Agencies and Public Agencies/”Municipalities”, including (but not limited to):

- ~Cities, Towns, and Counties
 - ~Public Retirement Systems
 - ~Local Public Agencies
 - ~Regional School Districts
 - ~Public Health Districts
 - ~Irrigation & Soil Conservation Districts
 - ~Water & Sewer Districts
- ("Public Agencies" are defined in the Idaho Code Section 67-2327)

Each application should identify the contact person usually requesting transactions, along with address and phone numbers. Upon receipt of the completed Application, with an original signature, the STO will notify the agency of the new account particulars, i.e. account number.

Investment Objectives

The investment objective of the DBF is to provide a reasonable level of current income which, when combined with potential capital appreciation as measured on a long-term basis, will accommodate growth while satisfying all potential distributions.

Since the DBF is by nature invested with a relatively longer weighted average maturity and since proportionate ownership in the fund is based on market value, participants can expect the value of their investment in the fund to fluctuate over time. Participating agencies should therefore only invest monies that they consider longer-term in nature (ex. 2.5 years or longer).



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In general, the investment guidelines require that funds be invested in high quality securities in a manner that provides a high level of total return at a reasonable level of risk measured over a long period. The investment manager will achieve the investment objectives through active management of the portfolio to meet or exceed the Lehman Brothers Intermediate A+ Aggregate Fixed Income Index.

Securities in this Fund are share positions valued at current market values. Due to interest rate changes and market movements, it is possible to lose money by investing in the Fund.

Allowable Investments

Only those securities allowed under Idaho Code Section 67-1210 and Section 67-1210A are permitted for investment.

Authority of the Investment Advisor

Subject to the terms and conditions of the Diversified Bond Fund Investment Policy and of this Statement of Understanding, the Investment Manager shall have the full discretionary power to direct the investment, exchange, liquidation and reinvestment of assets under its management. The Treasurer's Office expects that the Investment Manager will recommend changes to the specific conditions of the Investment Policy and Statement of Understanding at any time that they are viewed to be at variance with the investment objectives or market and economic conditions.

Please refer to the Diversified Bond Fund home page for Idaho Code definitions.

Custodial Banks

Mellon Bank has been chosen as the Idaho State Treasurer's safekeeping agent for the current contract. All investment transactions are executed by Mellon Bank per written instructions. Key Bank is active in security lending on behalf of the DBF. All lendable investments are subject to a negotiated contract with stringent regulations protecting the DBF investments.

Interest and Yields

State Agencies: Can elect to reinvest all interest accrued during each effective month back into the DBF account or can direct these funds to the short term IDLE account.

Municipalities: The DBF distributes and reinvests all interest accrued during any given month effective on the last day of each month, to the individual DBF account.

Administrative Fee

The Administrator of the DBF shall charge a service fee. Historically, the total earnings for each agency have been decreased by 24.2 basis points. The fee is the cost to operate the DBF fund.



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Audit Confirmations

All audit confirmations from agency auditors should be directed to:

Idaho State Treasurer, Ron G. Crane
Investment Department
Room 102 Statehouse, P. O. Box 83720
Boise, Idaho 83720-0091

The agency name, fund number(s), and amounts to be confirmed should be listed on the confirmation. It is the policy of the DBF to confirm only the balance in the account, the current earnings accrued, and the current yield. All other information including monthly earnings and rate of interest can be found on the DBF monthly statements.

Statements

A monthly Statement of Account for each fund and an Investment Portfolio Summary report shall be provided by the State Treasurer's Office, mailed out on approximately the 15th day of each month for the previous month.

The Statement of Account shows any contributions into and withdrawals out of the account, any interest reinvested into the fund on the last day of the month, gains and/or losses due to withdrawals, and account summary information. The agency is responsible for reviewing the Statement for accuracy. If the agency has any questions, the Fund Administrator should be contacted.

The Investment Portfolio Summary report shows the types and amounts of each investment category owned by the DBF.

Procedures for Withdrawals from the DBF

The agency shall contact the Local Fund Administrator by telephone (208) 332-2980 or (800) 448-5447 for withdrawals at least 25 business days before the end of the month for 10MM or more, and 5 business days before the end of the month for 10MM or less. These parameters also apply to the closing of a DBF account.

State Agencies – Process a “J” batch for principal only and deliver this “J” batch to the STO by 10:00 a.m. on the day of the withdrawal. The “J” batch should use a trans code 204 for the principal and a trans code 101 for gains. For losses, an “I” batch will need to be created with a trans code of 101R. These funds will be deposited into IDLE. The LGIP Administrator will supply you with these dollar amounts ASAP the morning of the withdrawal.

Municipalities – The STO will process the forms needed for the withdrawal and deposit all net funds into your designated LGIP account.



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All transactions will occur on the 1st of the month.

Procedures for Contributions into the DBF

The agency shall contact the Fund Administrator by telephone (208) 332-2980 or (800) 448-5447 for contributions and provide the following information:

State Agencies – should supply amount of Contribution. You should also process a “K” batch as a purchase of an investment (use TC 200) for the deposit amount; STO will disburse funds from IDLE to the DBF.

Municipalities – should supply:

- ~ DBF account number for deposit
- ~ LGIP Fund number amount should be transferred from
- ~ Amount to be transferred

All transactions will occur on the 1st of the Month.